

6-27-73  
MR. GOWEN SAID :—

It is with great regret that I again appear before an audience to talk about the affairs of The Philadelphia and Reading Railroad Company, but I think there never was and probably never can be such a necessity as there is to-day for one who has the welfare of that property at heart to give the owners some information about it that not only is the truth, but is derived from experience and knowledge of the subject.

Before entering upon what I shall have to say to-night, embracing a review of the management of the last two years, with some suggestions as to that of the future, I desire that you will bear with me for a few moments until I recall to your recollection the condition of the Company immediately preceding the time at which I left its service.

Many years ago I made up my mind that there was no great and solid future for a railroad property in the United States unless it controlled its traffic. I believe that the restless activity of the American people was such that wherever a railroad enterprise became successful, a rival line would instantly be established in order to divide its business and curtail its profits, and when I became connected with the Reading Railway Company this danger was more imminent in the case of that corporation than it was in the case of any other Railway Company in the United States. In order to avoid the difficulty and remove the danger, I suggested the purchase of the great body of coal lands. I made the suggestion to the largest shareholders of the Company, whom I was in honor bound to consult, and they approved of it, and sent me out of their own private fortunes the money wherewith to commence the purchases before they were made in the name of the Company, and before the financial arrangements had been perfected to pay for them with the credit of the corporation. Then arose the question as to the method whereby the means to pay for these

purchases should be raised. It was the simple question of whether they should be paid for by increasing the capital of the Company, or whether they should be paid for by increasing the debt. It was well understood that the obligations of the Company bearing six or seven per cent. interest could be sold at about par; but it was equally well known that the shares of the Company could be sold above par. Every man who knew anything of the subject at all knew perfectly well that it was easier to raise the money by an increase of capital than it was to raise it an issue of new bonds, but the only tribunal which had the right to determine that question was that of the shareholders of the Company. One firm at that time owned more than one-third of the entire share capital of the Company, and controlled through their friends so much more than their own ownership as to give them a majority of any vote that could ever have been cast at a meeting of the proprietors, and that majority had the right to determine whether the purchase of coal lands should be made with capital or should be made with debt, and, as the executive officer of the Company, I was bound to take such decision as a final and conclusive one from which there could be no appeal.

I was told that if the scheme would greatly benefit the Company in the future, it was better to keep the capital small because the dividends would be greater. Again, that if the capital was increased for the purpose of buying coal lands those who then controlled the share capital would be obliged to contribute their full share of the increase or lose their control, and that it was better for the security of the remaining shareholders, and better for the Company, that one strong house should have the control than that the shares should be scattered over the world, and probably be controlled by an enemy; and this view was correct. Accordingly the debt of the Company was increased over \$60,000,000, and the annual interest upon such increase was greater than the dividends theretofore payable. Hence arose the financial troubles of the Company.

After the panic of 1873 and after the struggle of 1879, these large payments of interest compelled the Company to suspend payment in the year 1880. Those by whose advice I had been governed, those for whose benefit I had acted, those who ex-



pected to reap the results of their own foresight, parted company from me when the ship encountered the storm. At that time there were two well defined views as to the condition of the Company. The one was the view expressed by the Messrs. McCalmont Brothers & Company through the committee of bondholders of which Lord Cairns was the chairman; and the other was the opinion that I expressed publicly, boldly, and very defiantly, and sometimes, I am sorry to say, perhaps too aggressively, but it was not in my nature to submit quietly to what I believed to be injustice. The one view was that the Company must be reorganized upon the basis of earnings of \$8,000,000 a year. Everybody knew what that meant; everybody knew that if the Company could only earn \$8,000,000 a year, the general mortgage bonds would have to submit to concessions, and that the junior creditors and shareholders might be obliged to wait a long time for dividends. The other view advanced by me was that the Company could always earn at least \$10,000,000 a year with any kind of proper management. These figures were inscribed upon my flag and I stuck to them. After a short interregum due to the peculiar circumstances in which the share capital was held, I was elected President of the Company in 1882, having remained in control of the business management as one of the Receivers during the whole of 1881.

Now, I call your attention to the fact that in 1881 the Company earned \$10,051,000 net; in 1882 it earned \$10,647,000 net; in 1883, excluding the earnings of the Central Railroad Company of New Jersey, it earned \$11,855,000 net, and I had fully redeemed my promise and demonstrated the correctness of my prediction. I had said three years before that the Company never would earn less than \$10,000,000 a year. I earned the first of the three years \$10,051,000; the second year I earned \$10,647,000; the third year I earned \$11,855,000, and I thought that my work was done.

When I was engaged in the memorable struggle with Messrs. McCalmont Brothers & Company, I was forced to appear before the proprietors at public meetings, to address them by circulars, to make appeals for their proxies as politicians solicit votes from the hustings. It was by no means

a pleasant task—to beg votes for office, especially for an office with which a large salary was connected; but I determined to save the property for those who had invested in it upon the faith of my promises, and to do this I submitted often to great indignity. Three times I faced audiences, twice in foreign countries, with enemies standing before me, who, I was told, were sent there to cry me down—and I begged people to send me their proxies, and to give me their votes, and there I pledged myself to them that if I succeeded, it would not be to keep an office with its salary of thirty thousand dollars a year, but to restore the property to its owners, and so soon as I could accomplish that object, so soon as I could remove the Receivership, so soon as I could turn over the estate to its owners and demonstrate its ability to earn interest upon every dollar of its debt, and dividends on every dollar of its capital, I would retire from office. In January, 1884, that time had come. No honorable man could longer retain an office secured under the pledge that he would retire the moment the object for which he sought it had been accomplished, and I retired, as it was my duty to do.

In what condition did I leave the Company then? What property did I leave to my successor? I left a great railroad; I left a hundred thousand acres of coal lands owned in fee simple, and nearly twenty thousand more held under perpetual control. I left over fifty per cent., probably nearer sixty per cent., of all the anthracite coal in the State of Pennsylvania to supply the railroad with tonnage. I left terminal facilities in the city of Philadelphia unequalled by those of any other company. I left terminal lands on the Bay of New York, held by the lease of the Central Railroad of New Jersey, such as no other company had or could get. I left the Company in friendly alliance with Mr. Vanderbilt, with contracts made for the construction of a line of railroad to Pittsburg affiliated to and guaranteed by companies owning lines through and west of Pittsburg, the whole forming the shortest trunk line to the city of Chicago from New York and Philadelphia, and forming by forty miles the shortest line between Pittsburg and the same cities. I left an alliance with the Baltimore and Ohio Railroad Company under which a line was to be constructed to connect Baltimore with the city



of Philadelphia, and over which the traffic of the Baltimore and Ohio system would be thrown upon the Reading and Central New Jersey roads to New York. Above and beyond all this I had demonstrated the fact that this great property, the Reading Railroad and the Central Railroad of New Jersey taken together, had earned the last year I had anything to do with it \$17,772,000 of net earnings, an amount almost as large as the gross receipts of the great Baltimore and Ohio Railroad Company.

I left as my successor my own personal friend and re-elected the old board of managers who, I believed, would be guided by my advice and counsel, and upon whom I relied implicitly to carry out the directions of the shareholders as expressed at the meeting at which they were elected. When I left the Company nearly two years ago, there was nobody who knew anything about it, that could not but say that I had fulfilled the promises I had made during the struggles of the three or four preceding years.

And now, gentlemen, what is the condition of that property to-day? Shorn of nearly all its strength, with the line to Pittsburgh hanging upon the doubtful tenure of a lawsuit, and every pick and every shovel idle along the whole route, with the Central Railroad Company of New Jersey clamoring to get back its property because its rental has not been paid, and the attendant danger that the Reading Railroad Company will be cut off from access to the city of New York; with the Baltimore and Ohio Railroad Company, that was ready and anxious and willing to use the lines of the Reading and the Central New Jersey to New York, about constructing a new railroad from Bound Brook to Staten Island, so as to use instead of ninety miles but sixty miles of the Reading line, and above and beyond all this with the earnings of \$17,772,000 cut down to \$12,000,000. No other company in the world I will venture to say, can show within the two years such a falling off of net earnings as will be shown by the Reading Railroad Company at the end of the present fiscal year.

What is the cause of all of this? I propose to go into that question very fully to-night. I propose to call your attention to the mistakes that have brought about this desperate condi-

tion of affairs. When I left the Company the only thing remaining to be done to guard against danger was to pay its floating debt. That floating debt had been largely increased within the preceding year or two; first, due to the purchase of fifty thousand shares of Central Railroad Company of New Jersey stock, which cost about \$4,000,000; second, to the purchase at or before maturity of about \$1,800,000 of funded obligations which the owners would not exchange into other securities; and, third, to the fact that in consequence of the Pennsylvania Railroad Company engaging in the construction of a new line to the coal fields it became necessary to buy still more coal lands and colliery property, in order that when the competitive line reached the coal region it could not take away the coal tonnage of the Reading Railroad; for you must always bear in mind that under the system of management of the coal trade resulting from the harmonious alliance with the other producing companies, every ton of coal from the Schuylkill region carried by a new transportation line would be deducted from the quota of the Reading Railroad Company—consequently if we permitted the Pennsylvania Railroad Company to secure a million tons of coal per annum it simply followed that in our adjustment of quotas with the other companies we would be obliged to content ourselves with a million tons per annum less, and the loss of earnings resulting from the smaller tonnage would have been frightful to contemplate, as compared with the small amounts of annual interest upon the cost of sufficient additional property to prevent the rival line reducing our tonnage.

I had provided for the payment of the floating debt before I left the Company. The managers had recommended the creation of a loan which was amply secured. I had made arrangements for its sale at a guarantee of five per cent., so that the Reading Railroad Company would have received \$11,400,000 in cash for the issue of a \$12,000,000 five per cent. loan. The guarantee was to be in this form: Suppose a guarantor undertook to guarantee a million, which was one-twelfth of the loan, he was to receive \$50,000 in cash for his undertaking that he would take one-twelfth of all the loan that was not subscribed when offered by public issue.



In order to show a foundation for the loan before such public issue was made, it was necessary that the traffic accounts of the Company for the then current year should be closed, so that when the books were made up at the end of the fiscal year, every one asked to subscribe could see that the Company had earned far more than enough to pay the interest on the loan.

At the annual meeting at which I retired this loan was ratified by the shareholders. It thereupon became the duty of the management elected at that meeting to issue the loan for the purpose of paying the floating debt.

The first mistake those whom I left in charge made was that they did not comply with the directions of the shareholders, and the reason for that mistake is to-day well known. I did not know it for months, as I shall tell you by and by. But the reason of the mistake was simply this, that they believed they could do better with Messrs. Drexel & Co. than they could with Mr. Gowen. Now I am not here to talk sentiment; I am here to talk business. I am not here to complain that I leaned upon a broken reed. I am not here to complain that I discovered that personal friendship was not a sufficient bond to hold my friend to me, for if I had trusted to that alone in business matters, I would be blamed by business men. But I am here as a business man to complain of the business mistake that threw overboard a guarantee of \$12,000,000 at five per cent., because it was thought that better terms could be made with the Messrs. Drexel & Co. That was a business mistake. If the gentlemen whom I left in control of the management of the Company had come to me and said, "Mr. Gowen, you have placed us in office by the vote of your proxies, you relied upon us carrying out the directions of the shareholders' meeting; you knew that your work in this Company was not finally done until the floating debt was paid, and you believed that we would issue the loan—but we have found out something that you did not know; we have discovered that we can heal up the animosity that existed between you and the strong house of Drexel & Co., and if you will only kindly step to one side, this great house of Drexel & Co. will come to our assistance, and the Reading Railroad Company through its aid can not only pay

its floating debt, but it can secure friends in the future who will be of far more assistance to it than you can possibly be." If they had said this to me, I should have replied: "Of course take Drexel & Co.; their financial assistance is worth more than mine. If my leaving you will secure the aid of that house, and they will take the loan and give you the money, close with them at once." But they said nothing whatever to me on the subject. On the contrary I was led for some time to believe that the question was still being discussed in the board, and that they intended to carry out my project. I have been told since that they were requested by the house of Drexel & Co. to wait until Mr. Anthony Drexel, who was absent, came back, and were told that if they would then throw overboard Mr. Gowen and his visionary financial plans, they should have the solid and enduring assistance of a strong and conservative house like Drexel & Co. They should have done one thing or the other. They should have said to Messrs. Drexel & Co.: "Mr. Gowen has made his arrangements for the sale of this loan; he has people who are ready to guarantee it; he has one friend who will take the half of it; we cannot wait; the floating debt must be paid; if a panic comes, we shall have trouble; we cannot carry so much sail in a storm; we are willing, if you desire it, to throw Mr. Gowen overboard, but if we do you must take the loan." But no such proposition was made. Simply upon the hope that they might secure Mr. A. J. Drexel when he came back, they threw overboard the friend who had the money practically secured for them before he left the Company. This was their first mistake.

Their second mistake was this: In December, January, February, and March of the fiscal year of 1884 there had been longer stoppages in the coal trade than were ever before made. There never had been such restriction of production as there was in December, January, February, and March of that year, except during a strike. The result was that the profits of the Company during those months fell off greatly, and the Company was burdened at that period, for the first time in its history, with the cost of carrying the Central Railroad Company of New Jersey through the winter months, for



the Central Railroad Company of New Jersey, like the Reading Railroad Company, always makes a great deal of money in the late summer and autumn, and cannot earn fixed charges in the winter, especially during suspensions in the coal trade. Therefore the managers of the Reading Railroad Company knew that, having stopped in December, January, February, and March, and being obliged in those months to pay the rental of the Central Railroad Company of New Jersey, it became absolutely necessary for them to earn money in April, May, and June, or they could not meet the June and July interest payments.

The way to make money in the months of April, May, and June in the coal trade, is to open the price of coal so much lower than it is to be in the fall, that dealers will buy coal, and then to protect the autumn trade by suspensions in July after the July interest payments are made. Everybody in the coal trade knows that—Everybody in the coal trade knows that the great difficulty in the trade has been that the price has been kept so high in the spring that dealers hold back their orders until the autumn, and when the autumn comes the demand for coal is so great that the orders can hardly be filled. But as the fixed charges are distributed over the year the Company must either borrow for its June and July payments, or it must make money in the spring, especially if it has been idle in the winter. I strongly advised at the opening of the season that the price of coal should be great deal lower than the previous year, and that notice should be given that it would advance so that it would be a dollar higher in the fall than in the spring. If that had been done the Company might have made over \$3,000,000 without any trouble in the months of April and May. I called at the office one day early in the season and found the officers of the Company who had charge of coal sales and coal prices, in consultation with the President upon the subject, and when I commenced to give my views about the necessity of making prices low enough to secure spring business, they were withdrawn by the President into an adjoining room, the door was closed, and I was left standing alone in the office of that Company.

The price of coal was opened in April without much reduc-

tion and without any assurance of a future advance. Dealers held back their orders as usual. The Company made but moderate earnings in April and May and were confronted with the large interest payments of the 1st of June without the means of meeting them.

This year their great mistake, the third in the series, has been to keep the price of coal and coal transportation too low. When the profits of the Company have fallen to \$12,000,000, or to about seven and a half million excluding the earnings of the Central Railroad of New Jersey; when there is no struggle in the coal trade; at a time when there is absolute harmony among all the six coal producing companies; when not one ton more than the market requires is being mined; when the demand for coal is so great that it is difficult to fill the orders; there must be some frightful mismanagement to account for the loss of earnings amounting, as compared with 1883, to over \$5,000,000, and representing when capitalized at five per cent. a depreciation in the value of the property of over one hundred millions of dollars.

Under such conditions as have existed this year, the Company could have had almost any price in reason it chose to ask for coal; why is it then that it is selling coal at tide-water at from fifty to sixty cents a ton less than it got two years ago?

Who will explain this? Gentlemen, fifty cents a ton on twelve million tons is \$6,000,000; forty cents a ton on twelve million tons is \$4,800,000; thirty cents a ton on twelve million tons is \$3,600,000; and amounts of such magnitude are idly thrown away for no other reason under Heaven, that I can discover, unless it be to demonstrate the necessity for a reduction of fixed charges, and to prove how absurd it was for Mr. Gowen to encumber the road with a large coal tonnage. I shall speak of this again this evening. At present, I only desire to say that the reason the Company is not earning \$17,000,000 this year, is because either willfully, or from negligence so gross as to amount to criminal incompetency, its Receivers are permitting its valuable anthracite coal tonnage, under a demand so great that they cannot fill their orders, to be sold at thirty or forty or fifty or sixty cents a ton less than they might readily obtain for it.



The saddest of all the mistakes—and I am speaking now only of business mistakes—is the manner in which the Receivers have treated the floating debt of the Company. The total floating debt, protected by collaterals, has never been more than from ten to eleven million dollars. Any floating debt, not protected by collaterals, cannot give trouble during a Receivership. Therefore, the only danger arose from that which was protected by collaterals, and for the non-payment of the interest upon which the collaterals might be sold. Now, when I tell you that the Receivers for the last year have been permitting the creditors of the Company who hold this floating debt to sell the obligations of the Company deposited for its protection at from twenty-two to forty-five cents on the dollar, when no necessity for such a sacrifice existed, you will think that such was not good business management. Why has this been done? They say, “We are not to blame; the court has prevented us from paying on account of the interest on the floating debt any more than is earned by collaterals deposited for its protection.” True. I admit that. I admit that such an order was made by the court upon the application of the general mortgage creditors; but, gentlemen, though this statement is literally true, it is liable to the charge that it embraces both the *suppressio veri* and the *suggestio falsi*, and when the Receivers and their learned counsel say “we can do nothing because the court will not permit us to pay, on account of this floating debt, any more than is earned by the collaterals deposited for its protection,”—they forget to tell you in the first place that the annual revenue from these collaterals was ample to pay the annual interest at market rates upon the whole of the floating debt; and they forget further to tell you that the only reason they have not got enough money to pay five or six per cent. interest to such of the floating debt holders who have sold their collaterals, is that they have taken the liberty at their own sweet will and without any consent of the court of paying from twelve to eighteen per cent. interest to some of the creditors. Where did the court give them such authority? Where upon the records of the court do they find the right, out of the \$500,000 or \$600,000 of income produced by the collaterals, to pay

twelve to eighteen per cent. to some persons, and then say, "we have not enough left to pay even five to others."

The day the Company failed last year they borrowed about \$650,000 to pay the interest on the consolidated mortgage. They paid the debt in twenty-nine days. They paid six per cent. per annum for the interest, and they paid one per cent for the twenty-nine days for the use of the money. That is over eighteen per cent. per annum for the use of money which the credit of the Receivers and the character of the security given should have secured at four or five per cent.

More than that, gentlemen; I have no doubt that if the transaction was investigated, it would be found that they paid a great deal higher rate than that, because, I have no doubt that interest was charged them on the whole \$650,000 from the first day of June, whereas it took twenty or thirty days to pay out the money, and all the time, the money not paid out remained in the possession of those who made these charges.

Again, about a year ago, Mr. Vanderbilt, of whom I shall speak later, desired the payment of a loan amounting to over \$800,000—protected by collateral worth about \$2,000,000. It came to my knowledge that this debt had to be paid. I went to New York at once, for I was then trying to help the Company all I could, and I found that out of the \$825,000 they had to pay, on one item of the collateral alone I could borrow then \$640,000 at four and one-half per cent. I told them so. I said: "Here, I will take one of these items out; I will get you \$640,000 at four and one-half per cent. on it, and all you have to do is to borrow about \$185,000 on the other collaterals;" and their market value at that time was \$1,200,000. They said they could do it. One item of the remaining collaterals was the entire share capital of the Telegraph Company owning the network of telegraph lines on the Reading system. It had been paying \$20,000 a year dividends. One of the Receivers was the President of a great financial institution, who, with security worth \$1,200,000, with one item that would have sold for \$400,000 if he had offered it to the Western Union or the Baltimore and Ohio Telegraph Company, could not get \$185,000 at any rate, although I had



offered to get them \$640,000 at four and one-half per cent. What did they do? They borrowed the money upon all the collaterals for one year at six per cent. interest, and they paid \$50,000 in hard cash, as a bonus, for the privilege of borrowing money at six per cent. which others would have given them at four and one-half per cent. without any bonus whatever.

Gentlemen, that \$50,000 thrown away would have paid the interest on \$1,000,000 of their floating debt for one year, and for want of such payment they have permitted \$3,000,000 of the bonds of the Company to be sold at from thirty to forty cents on the dollar; and such is the conservative business management which contrasts so favorably with the sanguine and visionary methods of Mr. Gowen.

I should like to ask these gentlemen where they got the power from the Circuit Court of the United States to borrow money at from twelve to eighteen per cent. The moment a Receivership is created it should give instant credit to the property it protects. A corporation finds it is obliged to pay eight or ten per cent. for money; it is on the eve of insolvency; its credit has gone; it wants time to recover; its property is placed in charge of a Receiver, and instantly the Receiver has a credit which should enable him to obtain money at the lowest rates of interest. The Receivership of the Reading Railroad Company, taking nearly \$50,000,000 a year of gross receipts, with no obligation to pay anything but working expenses except under the direction of the court, could command money at the lowest market rates.

Again, another great mistake of the Receivership has been the treatment of the creditors holding funded debt. Let me tell you how they do business. Six or eight months ago the quarterly interest on the consolidated mortgage debt of the Central Railroad Company of New Jersey fell due. This debt is \$15,000,000. There are only \$5,000,000 ahead of it. Therefore it represents a charge upon the property of the Central Railroad Company of New Jersey of \$20,000,000, the interest on which, assuming it to be seven per cent., is \$1,400,000 a year. Bear that in mind. Further, bear in mind that, even under the present splendid management of the Receivers, the

Central Railroad of New Jersey is earning from four to five millions a year. Bear in mind, further, that the counsel for the Receivers have obtained an order from the Circuit Court of the United States, authorizing to the extent of the earnings of the Central Railroad Company of New Jersey the payment of interest upon the obligations of that company. Here we have three facts: First, the earnings are between four and five millions; second, the first charge for interest is \$1,400,000; third, the Receivers are authorized to pay to the extent of the entire earnings. It does not require very great capacity to determine that out of four or five million dollars they have a right to pay \$1,400,000. But when the coupons of the loan came due those who held them called at the office of the Central Railroad Company of New Jersey to collect their interest, and they were told "We have not yet heard from the Reading Railroad Company on the subject; they have neither sent us the money to pay these coupons, nor told us when they will;" and there was another shock given to the credit of the concern. The bonds were held by the very best people of New York, men whom the Receivers should have endeavored to conciliate and to placate by every means in their power, but they were told when they presented their coupons, "There is no provision made for their payment, and we have not even heard from the Reading Company on the subject." A few days afterwards they were paid. I can understand perfectly well how, when a man is driven to the wall, when he has no money, he must summon up all his moral courage and meeting his creditor say unto him: "Have patience with me and I will pay thee all." But when you have money, and when you are bound to pay it and intend to pay it, I cannot for the life of me understand the business principle upon which you give the same shock to your credit as if you had not the money. There may be something in it, but my business education does not enable me to understand it.

Again, before I left the Company, as it did not have any surplus capital for new work, and knowing perfectly well that cars had to be constructed for an increasing business, I provided—I say "I," but of course I mean the board of managers. You know it is said that I was a dictator and apt to



take too much responsibility upon myself, but I think that is just the kind of a person the Company wants now. I provided a car trust, so that the Company, for a year or two at least, should have all the money necessary to provide for the payment of new cars. It was sold to the Union Trust Company, of this city, and sold upon very favorable terms. Last February an instalment of this car trust became due. The people who held the certificates went of course to the Union Trust Company to draw their money; probably some of them left it until half past two or three o'clock in the day, thinking that certainly the money must be ready for them, and they were told: "The Reading Railroad Company has not provided for this payment." They said to the Trust Company: "It is your business to look after it; you are the trustee." "Yes," said the Trust Company, "we have been down to the office every day for a week and sometimes twice a day about it." "Well, what do they say?" "They can't tell me when it will be paid, or what they intend to do." "Why not?" "Because they don't know themselves, but they say that as soon as they find out what they intend to do they will tell me." Three days afterwards the money was paid. Such is the good business management which has supplanted the visionary methods of Mr. Gowen.

One thing is very certain, the Company, in its present strait, should have clung "as the shipwrecked mariner clings to his last plank,"—to every spar of good credit it could find. Every obligation they had to meet which they intended to pay should have been paid promptly. It is bad enough that they made a default on the debentures; it is bad enough that they made a default on the first and second series of fives; it is bad enough that they made default on the income mortgage and the convertible adjustment scrip; it was criminal that they made a default upon the general mortgage; but these car trusts they might have paid promptly. If they had paid them promptly the enhanced value of the security would have been one peg upon which to climb to good credit. The Central Railroad Company of New Jersey's consolidated loan was another,—but no, it seems that, whether they have or whether they have not the money, the one object to attain since they

have gotten rid of Mr. Gowen is the reputation for conducting the affairs of the Receivership on business principles, no matter what may become of their credit.

Again, and I do not know whether it is the sixth or seventh or eighth, but I think it is the eighth mistake they have made there in the department of economy. They have exercised great economy, they tell us, and I want to tell you how they have applied it. For some years the Reading Railroad Company owned about twenty-two thousand coal cars. The Lehigh Valley had about twenty-nine thousand coal cars. The Reading Railroad was able with twenty-two thousand cars to do nearly twice the business of the Lehigh Valley Company with twenty-nine thousand. That is no reflection upon the management of the Lehigh Valley Railroad Company. The reason was simply this, that the Reading Railroad never permitted its cars to go beyond its lines except to the suburban lines of Philadelphia; but shortly before I left the Company, you will remember, we made an arrangement with the New York Central Railroad Company by which the Pine Creek road was constructed, and we made an arrangement with the Beech Creek, Clearfield and Southwestern Company, by which a line was constructed to share the bituminous coal trade of the Pennsylvania Railroad Company, and in both of those instances we were to put into the trade our proportion of coal cars. I knew perfectly well that the moment the Reading Railroad raised its portcullis and permitted its cars to go beyond the lines of its own road, that instead of making two trips a week with such cars, they might make only two trips a month, and consequently that if the Company desired to keep up its shipments it must have new coal cars. The car trust certificates of which I have spoken would provide the money to pay for the new cars. I gave the order for one thousand coal cars to carry twenty tons each. They were to cost about \$500,000. A great deal of the work was to be done during the winter. The whole of the one thousand cars were to be ready by the middle of the summer of 1884, when the rush of business came on. When I left the Company, a great deal of the material for these cars had already been ordered. Additional



coal cars were an absolute necessity to the Reading Railroad Company. I was amazed a short time after I left the Company to find that an order had been given to stop work on the new cars. They were not constructed. What was the result? Last year the result was just this, that for want of these cars the Reading Railroad Company lost \$1,000,000. The total loss of output of anthracite coal by all the companies last year, as compared with the year before, was, I think, one million and thirty-six thousand tons, and out of that one million and thirty-six thousand tons the Reading Railroad, that should have lost about four hundred thousand tons, lost one million and sixty-three thousand tons. There was not much left for the others to lose; the Receivers took good care of that. They did not have cars enough to do the business; they did not secure their proper share of the business. That year there was no quota, but they were entitled to ship just as much coal as they could during periods of work. If they had had the thousand cars to put into the Richmond coal trade in the months of August, September, October, and November, they would have transported with them forty thousand tons a week, making two trips a week with twenty tons to a car. But no, economy required that that tonnage should be saved. If they had constructed the cars they would have had to pay six per cent. on \$500,000 for the year, that is \$30,000. They would have had to pay one-tenth of the cost at the end of the year, which was \$50,000. Therefore, they would have had to pay \$110,000 if they had constructed them, but if they were constructed they would have made over a million of dollars more money. Gentlemen, the \$110,000 was one of the foolish extravagances of Mr. Gowen, that reckless railroad manager, and it had to be saved, even if it did cost a million of dollars to do it, "for principles and not earnings" was their motto, and they were willing to pour out the shareholders' earnings like water in defense of the Receivers' principles.

Again, we heard a great cry (and I am sure there was very little wool came out of it), at the beginning of last year. We heard a great cry about economy. \$2,000,000 were to be saved in wages alone, and they cut them down. They saved \$2,000,000, and what was the result? Gentlemen,

they will make this year \$1,350,000 less than they did last year.

Proper economy is at all times commendable. There are times when the wages of men must be cut down, but I want to tell these railroad managers that when unskilled labor is paid a dollar and a half a day the Reading Railroad can earn six per cent. on its shares, and when unskilled labor is cut down below a dollar a day, the Reading Railroad Company can hardly pay its fixed charges. Why is this? It is simply because if the Reading Railroad Company saves \$2,000,000 a year in wages in its district, all employers together are saving \$10,000,000 in wages, and when \$10,000,000 less wages are paid on the line of the Reading Railroad Company, the receipts of the Reading Railroad Company will fall off \$3,000,000, which is just one million more than is saved. There is no money paid out that goes into the exchanges of the country and promotes business so quickly as the wages of labor.

Economy was right, but they should never have supposed that because they saved \$2,000,000 in wages they were going to increase their earnings that amount. They could not do it. It never has been done and it never can be done. Go out on the line of the Norristown Railroad, say to Manayunk and Conshohocken. When the factories are running full time and good wages are being paid, the cars are full every day, and the laboring man and his family who travel over the road pay full rates for each ticket they buy, say two or three cents per mile. Go to a more fashionable locality, like Chestnut Hill, where the Pennsylvania Railroad Company has just constructed a most extravagant line, and you will find that the rich man living there is a commuter. He buys an annual ticket, and he pays less than a cent per mile for using the line. That is the whole thing in a nutshell.

But there is other economy of which these gentlemen have been guilty. Remember it was announced as an axiom of railroad management four years ago that the Reading Railroad could not earn more than \$8,000,000 a year. All the great financial papers of Philadelphia, those I mean who sneeze when the Pennsylvania Railroad takes snuff (and my friends the reporters will kindly oblige me by putting this



down correctly), had determined that no good business management could make more than \$8,000,000 a year out of the Reading Railroad.

There is a system of syllogistic reasoning which those who studied logic are familiar with. You have two propositions given, and the third is an absolute deduction from them. The first proposition was this: No proper business management can produce more than \$8,000,000 a year from the Reading Railroad. That was the major premise. The minor premise was that in 1883 Mr. Gowen produced \$11,855,000. Now, the logical conclusion was that Mr. Gowen was not a good railroad manager, and the necessities of the case added to the demand for economy required that they should economize in earnings just as they did in everything else. There must be a reduction of everything in the Reading Railroad Company, earnings included, because the fixed charges were left by Mr. Gowen were too large. Now they said, here will come up some sanguine fellow like Mr. Gowen and say how can the fixed charges be too big if the earnings are greater; we must therefore get the earnings down below the fixed charges, and they set themselves resolutely to work, with great ability, and they have produced a wonderful result. In one year they have economized earnings to the extent of \$4,200,000. This last year, in addition to that saving, they will economize \$1,350,000 more. Now, if I let them alone one year more, there will be no earnings left to economize, and they will at last succeed in getting the business down to the level of their own capacity.

The last mistake of which I have to complain of them tonight is that they have systematically been guilty of fouling their own nest. Who says a good word for the Reading Railroad Company? Who ever stands up to say that it is not as bad as it is painted? I do not desire to complain that in going down from Jerusalem to Jericho, it has fallen among Receivers; neither do I complain very bitterly that both the priest and the Levite have passed by on the other side. That I do not object to. We have been taught that that was human nature eighteen hundred years ago; and it is to be expected now. But what I do object to is that the fellow who

was on the other side originally and should have staid there, has come over to our side to give us a kick, and that there is nobody to say him nay. There has been no good word said for this Company by any one. Demoralization is going on from the top to the bottom. The subordinate officers of this Company, who are honest, faithful men, are performing their labor to-day knowing that those who should defend them are permitting the finger of scorn to be pointed at them as incompetent. When I left the Company I left a force of officers, subordinates, and working men, such as I believe did not exist collected together under any other corporation in the United States. I believe the *esprit du corps* of those men at that time was such that they would have subscribed one-quarter of their wages for a year if it were necessary to save their Company. What do we see to-day. The old labor organizers are coming back into the anthracite coal region. Why? Because there is no one to oppose them and they find supporters because the men who have been asked to suspend mining in the winter and spring for two weeks this month and two weeks that month, so that they could earn higher wages in the fall, are confronted to-day with the fact that after all the suspension the price of coal is so low that there is no advance on their wages at all. When I was President we could say to the men you shall either have full work and low wages or half time and high wages, but now they are given half time, and the price of coal is kept so low that their wages are not advanced. This must lead to the inevitable result. From the top to the bottom the cancerous fungus of disorganization has commeneed, and some man with a strong hand must be at the head of the Company if there is to be anything healthy left in the body at all.

I have now pointed out a few, only a few, of the many errors of judgment, to use the most euphuistic term I can think of, which have been committed by the learned gentlemen who are managing the affairs of the Reading Railroad Company, and I now desire for a very short time to ask your kind indulgence while I speak somewhat of my own connection with the Company during the last two years.

I have already told you why I left the Company, the rea-



sons that induced me leave it, the necessity which I thought compelled me to leave it. I made no terms for myself. I refused to permit a vote of any kind to be passed at the annual meeting at which I resigned, that would connect me with the Company, simply because it would be said that I was only resigning under a pretense, and using my proxies to vote myself into a position. But I will tell you this: Four days before the annual meeting Mr. Vanderbilt sent to my house and asked me to reconsider my determination to leave the Company. He said, "You know I have come into Pennsylvania and I have come here very much on your account. I am going to spend over \$20,000,000 in this State. We have to contend with the Pennsylvania Railroad, and I do not like the idea of your retiring." I told Mr. Vanderbilt's representative two things: First, I am bound to go because I pledged myself to go when I was struggling with Messrs. McCalmont Brothers & Co.; second, before Mr. Vanderbilt bought a share of stock I told him that I intended to resign.

That much, therefore, I must do. But I said, "I am putting my own personal friend in my place, whom I have known for twenty-five years; I do not propose to desert the Company. I propose to stand by the Company and do anything required of me, willingly and gladly." I said, Mr. Vanderbilt has left his own Company, and put Mr. Rutter in his place. Does not William H. Vanderbilt control the New York Central Railroad Company to-day whether he is President or not? Do you not suppose that on account of the relations existing between Mr. Keim and myself that I can control the Reading just as well?" "I will do anything," I said, "to aid the enterprise; and will always be ready to defend it."

I certainly did think that the least that could have been done after I left the Company, and the new management went into power, was for them to say to me: "Mr. Gowen, will you not come and take a seat in the board? It has been your Company for fifteen years; you are responsible for the business judgment that led to bringing this property together as one comprehensive whole; now will you not come and take a seat in the board and give us the benefit of your counsel." Certainly I expected something of that kind. I was never

once asked. At the end of the one-hundredth part of one second after I left the Company two years ago, I was just as much a stranger to anything connected with its business management as any man who is now sitting in this audience tonight, although I held at that time the proxies of about four hundred thousand shares. Within three or four weeks after I left the Company, upon being confronted with the existence of that which I did not dream could have existed, I said to the President and one of the directors "Do you think I would have put you here if I had known you were going to do this?" I was told that same week, "Mr. Gowen you should remember that you were not a very successful president of this Company, and now other people have got hold of it we are responsible, and you are not." Well, I had made a mistake. I saw it. I remembered that the Duke of Wellington had said that the man who occupies a public position and voluntarily puts himself upon the shelf may find it very difficult to take himself off again, and I was in that position. I kept my temper, however. I went to the office and said to the President, "I left this Company intending to open an office to practice law. I intended first to go to Europe to rest. Now," I said, "I will give all that up; I will give up everything I have been striving for; I will come back into the service of the Company; and I will do this; I will bring you the money to pay your floating debt; I will sell in London the bonds of the Central Railroad Company of New Jersey and pay its floating debt, and remove the control of the chancellor from the property; I will secure the construction of the East Side Railroad with the credit of the Baltimore and Ohio Railroad Company, without costing the Reading Railroad Company one cent, because Mr. John W. Garrett had always told me that if it were necessary to use the credit of his Company to get through Philadelphia we could have it to the amount required to construct the line." I said, "I will negotiate for you the bonds of the Narrow Gauge Line to Atlantic City, so that the change of the gauge and purchase of that road can be made without taking a cent out of the treasury of the Reading Railroad Company;" and I said further, "that in addition to these financial matters I would take up the question of changing the working



of the Central Railroad of New Jersey, so as to produce the results, that we knew by some changes could be produced." "Now," I said, "I will do this; all I will ask you to do is that as I will not go to the Bar to make money you shall give, so long as I am engaged at this work, the same salary I received as president." Mr. Keim said he thought that would be right but it would have to go before the board." I then called upon one of the managers of the Company and repeated the proposition to him. I was kept waiting on the board of managers for a long time. I was told once that they desired to see me about the loan. "Very well," I said, "I am in town almost every day; any moment you send for me I will come." At last I was told that a general retainer as counsel would be given me, and that was the result of my application to be allowed to put the finances of the Company in shape. But even then I did not dream of the disaster that was impending. Why? Because I assumed that having thrown me overboard, they had made, as business men, arrangements with somebody else to secure financial assistance. About the middle of May a gentleman from New York—I will give you his name—Mr. S. N. Chittenden, a large holder of the securities of the Company—came to my house late one day, and said: "Mr. Gowen, do you know what is going on in the Reading Railroad?" "No," said I, "they do not consult me any more." "Do you know," said he, "that a meeting has been held in New York at which the finances of the Reading Railroad Company have been considered, and that it has been determined that the property shall be placed in the hands of a receiver, and that Mr. Keim has been directed to have the necessary papers prepared." Said I, "No, that cannot be." "It is true," said Mr. Chittenden. Said I, "Who told you?" "Such and such a one." "Who told him?" "Such and such a one." "Where did he get it?" "He got it from one of the persons present at the meeting." Said I, "Do you mean that four people know already that this has been done?" "Yes," said he. And I tell you here to-night that that was the first notice I had that it was determined to put the Reading Railroad into the hands of a receiver, and it came to me from a stranger who had heard it at fourth hand. I went to the office bright and

early next morning. I called Mr. Keim, the President, into a room, and I said to him: "When I gave this property into your charge, I put my character in your keeping. Do you tell me that you are going to throw both away without even letting me know?" He said to me: "Have I not been a fool?" Said I: "Never mind the past, let us try to avert the danger." "What do you want me to do?" said he. Said I, "I want you to tell both your secretaries to come to me and show me the exact condition of both companies." I spent an hour with them, and saw exactly what had to be done. I saw the danger, and that was that they were carrying fifty thousand shares of Central New Jersey stock, and had borrowed money on it at 70. They were within two or three weeks of the 1st of June, when they had \$2,000,000 to pay. They had plenty of securities in their possession. They had not taken my advice about the business in April and May, and therefore did not have large earnings, and the way to save the Company then was to prevent much money going out on account of the shares of the Central Railroad Company of New Jersey. I knew how the shares were held. I knew that the Reading Railroad Company had no right to gamble in stocks, but I knew perfectly well that it had a right to protect itself from disaster, and that I could get people interested in the Company to aid in the struggle. I went to a strong house, showed them the situation, and they required that \$250,000 should be sent them as capital to protect the Company, and when I went back to the office Mr. Keim was a different man from what he was when I left him, and I could do nothing with him, nothing whatever, and for the want of that \$250,000 about \$2,200,000 in securities and money were paid out day after day, and when the 1st of June came the money that should have been husbanded to pay coupons was not there, and the Company went into the hands of Receivers. I said nothing; I never complained; I submitted in silence. My kind friends of the *Philadelphia Ledger* said in their paper the next day, announcing the appointment of the Receivers, that it was very gratifying for the security of the Company to find that the ex-president had not been included in the Receivership. I



cannot say that "sufferance is the badge of all my tribe," and I must admit I had great provocation then to speak out, but I said nothing.

When a company gets into trouble, everybody should support those in charge; it does no good to make complaints, and I determined never to complain so long as there was any reasonable prospect of those in charge of the property being able to accomplish anything.

The next month I went to Saratoga and saw Mr. Vanderbilt. He said to me: "Gowen, I hear that they are not treating you well at the office, and that you are angry and you are not going to help them. Now it was as much for your sake as for anything else, that I bought my stock. I can afford to lose it, but I cannot afford to be bothered and annoyed about it, and unless you will put your shoulder to the wheel and help the Company out of its trouble, I will not have anything more to do with it." Said I: "Mr. Vanderbilt, that is just what I have been trying to do. Anything I can do to help the Company I will do if I am given an opportunity. Mr. Keim came to Saratoga that day. Two of the managers were there about the same time. I had a long interview with Mr. Keim in the presence of Mr. Vanderbilt's representative, Mr. Twombly. I recounted to him practically what I have told you to-night. I complained earnestly of the manner in which I had been treated, and of the mistakes that had been made.

When I had finished, Mr. Keim said; "I do not admit the correctness of all you say, but, suppose it was all true, what do you want me to do?" Said I: "I want you to save the Company and terminate the Receivership. You occupy the position of President, and he who fills that place must do the work. It can all be done this autumn." He said, "Will you undertake it?" "Yes," said I, "if I am properly authorized. The matter can be accomplished in October or November. You must wait till then to demonstrate your power to earn money. If you show by your August, September and October business that you earn enough this year to pay the interest on your general mortgage, on your income mortgage and on your floating debt, the reorganization of the Company is

easy." I then agreed to undertake the task, upon condition that there should be no stoppage in the coal trade after the first day of September. I knew how much they would have to make each month for the remainder of the year in order to pay the interest on their mortgage and floating debt, and I knew perfectly well that after the shock to their credit resulting from the second Receivership, if I could show earnings enough to pay interest on the mortgages and the new money they required for floating debt, I could easily secure a proper reorganization.

I told Mr. Vanderbilt that everything was settled. To my knowledge—for he told me so—he made it his business to say to the managers who were there that they could not afford to ignore Mr. Gowen, and that he had had a full conference with me about the future of the Company. I left Saratoga, and went to Bar Harbor; and almost within a week of the time I made this bargain at Saratoga, with Mr. Keim, I received written authority from him to take charge of the plan of reorganization, and in that same letter I was notified as a matter of common news that in violation of the express condition I had made, he had consented to stop mining one week in September. There was half the interest of the general mortgage bonds for one year gone at a blow.

I came back to Philadelphia a sorrowful man. I saw Mr. Keim, and almost the first thing he said to me was, "They want us to stop another week in October." "Now," said I, "for God's sake, don't do that. You are full of orders, and the New York Companies have their cars full of coal which they cannot empty, and you are asked to stop and let them empty their cars upon your customers so that they can ship twice as much coal in three weeks as they otherwise can in five." Said he, "What can I do? They say they will break prices." "Break prices?" said I; "they want to make money as well as you do. They hope to empty their cars on your customers. They will never break prices, and if they do it cannot hurt you as much as a week's idleness. Write to them that you cannot stop now but that you will stop if the Pennsylvania Railroad Company will stop." "They will probably call a meeting. Perhaps by the time the meeting is held the



trade will be better, or at the worst, if the Pennsylvania agrees to stop mining you might consider the question." I felt a little cheered at the fact, that he had then for the first time consulted me about a matter of business, and as I had told him what to do, and he had not said me nay, I assumed of course that he would follow my advice, or at least would confer further with me before taking any action other than that recommended by me. I went home, and at the breakfast table the next day I picked up the papers, and read the announcement that "The Reading Railroad Company had agreed with the other coal companies to stop mining one week in the month of October." There was the whole interest for one year on the general mortgage bonds gone, and that fatal stoppage was consented to against the protests of the subordinate officers in charge of the coal trade, and the New York Companies were able to exult over these subordinate officers, because they had secured the co-operation of the Reading Receivers to another week of idleness.

Now, what do these stoppages mean? I will tell you what they mean. The Reading Railroad Company under my management did away with middle men. Perhaps you have heard of that. The consequence is that the Reading Railroad Company is never blocked in the coal trade. Why? Because it deals with people who either burn coal for their own use or who retail it to others, and who have depots and coal-yards to store it, and whenever there is a dullness in the coal trade the Reading Company by telegraph can find among its customers room enough to hold coal without keeping its cars loaded. The New York Companies deal principally with middle men, who have no facilities for storing coal, and whenever there is dullness in the coal trade they get blocked, and loaded cars accumulate at the New York end of their railroads. Whenever this happens it takes some time to remove the blockade, and when they are thus blockaded they generally prefer that the Reading Railroad Company shall stop also. Everybody, even the learned counsel for the Receivers, must know that when a railroad company has all its cars loaded at one end of its line and no empty cars at the other end, it cannot do business; and everybody who has common prudence,

and does not want to economize in net earnings, ought to know that when the Reading Railroad Company finds the New York Companies in that position it can make a great deal of money. It should make, with full work in autumn, about \$2,000,000 a month, but when it stops one week it can make only \$1,400,000, and two or three weeks of unnecessary idleness, at a cost of \$600,000 per week, takes away enough profits to pay a year's interest on the general mortgage. This second blow was too much for me. I notified my friends in New York that I would have nothing further to do with any plan of reorganization unless I had some control over the business. I was then requested by the representative of Mr. Vanderbilt to give my views in writing as to what should be done. I prepared such a letter, a very long one, and I sent it on the ninth day of October, 1884. On the same day I sent a copy of it to Mr. Keim, because I criticised him in it, and it was proper and right that he should know it. He acknowledged its receipt a day or two afterwards. After reviewing the past as I have been doing tonight I gave my views as to the future, and expressed my willingness to take the vacant Receivership and a seat in the board. I knew perfectly well that if I once got in, that things would go my way. I had had experience of that kind before. I was told, however, that if I took such positions it would shake the confidence of Messrs. Drexel & Co.; that it would hurt the feelings of two or three other firms in Philadelphia, and that it was not wise for me to do anything to make more enemies for the Reading Railroad Company. I was told that even my enemies kindly admitted that so far as getting up and carrying out a plan of reorganization went, I knew more than anybody else. I was told that if I would take up the question of reorganization only, and give up everything else, I should have just the same control over it that Mr. Samuel J. Tilden had over the reorganization of his Western Companies; that I should be absolute master, and nobody would interfere with me. I was assured further by those who had good right to know that so far as the business management of the Company by the Receivers was concerned I need give myself no uneasiness for the future, as I already had the Receivers so frightened



that they would do anything I wanted. At last I consented to act. I consented for the second time to take charge of the reorganization of the Company, and on the 30th day of October, 1884, these papers were handed to me. The first is a resolution of the board of managers, and reads as follows:

*Resolved*, That Mr. Franklin B. Gowen be retained and employed to take charge of preparing and carrying through a plan for the financial reorganization of the Company, subject to the approval of the Board of Managers, and that he have full power and authority in behalf of the Company to confer and negotiate with its Bondholders and Creditors, either through Committees of such Bondholders and Creditors or otherwise.

The second is a letter from the Receivers, which I will read:

PHILADELPHIA, October 30th, 1884.

*Mr. Franklin B. Gowen,*

DEAR SIR:—The Managers have communicated to us a resolution they have adopted, entrusting you with the preparation of a scheme of reorganization and the negotiations to secure its adoption. We are very glad that the Directors have taken steps in this direction, and, so far as our powers extend, we shall cordially do everything we can to assist and facilitate your efforts to that most desirable end.

Very respectfully,

GEORGE DEB. KEIM,  
S. A. CALDWELL,

*Receivers.*

So there, gentlemen, I was again employed to reconstruct. They gave me a retaining fee of \$5000, and were to pay me \$2500 a month until the work was completed, and if they had continued my employment that money would have produced better results than any the Receivers have paid out for legal advice from the inception of their Receivership until the present moment. I spent some time collecting all the data I wanted and then devoted about three weeks work to the details, and finally perfected and put into print a complete plan of reorganization. I knew that it was hopeless to expect to extricate the Company from difficulty without money; I knew how and in what manner the money could be had. The Company had \$15,000,000 of excellent securities. Mr. Joseph Wharton, I am told, at his meeting to-day, admitted that as a fact. Well, I knew if they had \$15,000,000 securities that

were bearing interest they were at least sufficient security wherewith to raise \$10,000,000. Everybody who has looked into the Reading Railroad affairs has admitted that there is sufficient security for \$10,000,000. So far so good. Then I knew that the Baltimore and Ohio Railroad Company was about to make a contract with the Reading Railroad Company, and that they would be willing to put such contract into any form that would help the credit of the Reading Railroad Company. I knew that fifteen years ago the Baltimore and Ohio traffic over the Camden and Amboy Railroad amounted to about \$450,000 a year. The lowest estimate that anybody could reasonably put upon it now would be, that it would amount to \$750,000 per annum to the Reading Railroad Company. Mr. Garrett believes, and I believe, that in a few years this traffic would produce \$2,000,000 per annum. Then what had I to raise money on? I had securities of \$15,000,000 producing about \$700,000 a year, and that was good enough for \$10,000,000; and I could have drawn the contract with the Baltimore and Ohio Railroad Company, so that the latter would agree to pay into a trust company, for the protection of the new Reading issues, the annual sum due for the use of the Reading Railroad between Philadelphia and New York. Any financier, no matter how conservative he may be, will know that if you have the name of the Baltimore and Ohio Railroad Company pledged to paying every year say \$750,000 into a trust company, you can borrow from ten to fifteen million dollars upon the security of that pledge without any trouble at all. Everybody knows that. There could have been no better security, according to the estimate in which the credit of railway corporations is ranked on the stock exchange, than the obligations of the Baltimore and Ohio Railroad Company.

I knew further that I could have drawn that contract both as a lawyer and a business man, for I do claim to have a little knowledge of both branches of learning, although some of my conservative friends say I know nothing at all about business. I do know that I could have drawn that contract in such a way that the \$700,000 or \$750,000, or whatever the annual payment was, would have been deposited for the security of



the loan in each year just as certainly as the United States Government pays the interest upon the public debt. Then the first step in reorganization was accomplished, because if we had the money to pay off everything that threatened danger and the bondholders would not accept fair terms, we could bring them in by foreclosure, but the force would be used in such a manner that nobody would lose his rights in the Company, as a penalty for non-payment of forced assessments. I knew that I was undertaking the task with the entire approval of Mr. Vanderbilt, the largest shareholder in the Company, and did not therefore dream that I was to be displaced; but to my amazement the moment it was known that Mr. Gowen had perfected a plan that would secure money and save the Company, a power more potent in the affairs of the corporation than was Mr. Vanderbilt himself made itself felt—and Mr. Gowen was displaced. Remember, gentlemen, that if Mr. Gowen had saved the Company it would not have been good business form; for men, great in their own estimation, and able newspaper writers had issued the irresistible fiat that the Reading Railroad Company could not be saved by mortal man.

My friend, Mr. Wharton Barker, about whom I desire to speak very kindly, came to the fore and led the movement that succeeded in displacing me. I have said something in my circular about him and I do not care to say very much more. I have sometimes made mistakes in criticising people too harshly, and I prefer to-night to speak kindly of everybody, because a great deal of hard feeling is often engendered in contests such as these, and it is far better, I think, wherever one can, to preserve his good temper and good humor, and I do think that Mr. Wharton Barker is a subject about which we can all laugh. I think it probable that if we had Drexel & Co here, that, much as they dislike me, they would sit down, on the other side of the table of course, and laugh with us all about Mr. Barker. And if there is any one subject about which myself and my enemies can agree even to laugh, we have made the first step towards getting the Company out of trouble, and if that subject is Mr. Wharton Barker, he will deserve all the credit for the result, and therefore his intervention in the affairs of the Corporation will not have been in vain.

Well, the matter was taken out of my hands and turned over to a committee. I helped the Committee so far as they would permit me. I gave them my plan, and when they saw that it proposed to raise \$20,000,000, they were amazed and struck that portion right out without a dissenting voice. They adopted the rest with a few exceptions, although it emanated from Mr. Gowen, because, after striking out the portion about raising money, the plan was perfectly harmless. I aided them to the best of my ability. I used to go to the houses of some of them at night, so that people should not see me going there, to tell them how to do it. I was requested, and I consented to show them how to write that portion of their report which finally disposed of Mr. Gowen's foolish idea that money had to be secured in order to accomplish reconstruction.

I had a very interesting conversation about this time with Mr. Twombly, the representative of Mr. Vanderbilt. I had advertised for proxies in November, and had received about two hundred and eleven thousand votes. Mr. Wharton Barker, as Secretary of the Committee, had also advertised for proxies, and he had received so many that if he had had three hundred more, I think he would have been able to control about seven thousand votes. Mr. Vanderbilt could have voted at that time, I think, about one hundred and thirty-five thousand shares; I had two hundred and eleven thousand, which gave me control. But the Committee were not satisfied with the aid I rendered them in getting up a plan, and they desired me further to show them how to elect a board of managers, and I even consented to do that for them. I gave Mr. Wharton Barker a letter saying that I would vote my proxies for the ticket nominated by his Committee. Before I did that, however, I had said to Mr. Twombly: "Now, Mr. Twombly, I think you should do one of two things: you should come to Philadelphia and say you come here as the representative of the largest shareholder, and that you desire to name a board, and take charge of the Company, with a view of extricating it from financial difficulty, and that you will take the responsibility of doing so upon your own shoulders. If you say that, I will vote every proxy I have for any board you may name, no matter who they may be, be-



cause I know that Mr. Vanderbilt never took charge of a company to wreck it, and has always interposed to save. Or," said I, "if you do not do that, then go back to New York, and let me look after the Company and I will become responsible for the result." Mr. Twombly replied that I knew as well as he did that Mr. Vanderbilt would not vote against me, and that he would not take upon himself the responsibility of managing the affairs of the Reading Railroad Company, but that if I took the responsibility of the management of the Company upon myself I would be opposed and embarrassed by those who thought I was an obstacle to success, and if I did not succeed they would say to me: "If you had only let us alone we could have saved the Company." He advised me to give them a chance, because if they did save the property, that was all I wanted, and if they did not save it they could no longer object to my intervention. I determined, therefore, to vote my proxies as requested by the Committee, and I did so. In about three months Mr. Twombly said to me one day: "Now, Mr. Gowen, I think the time has come now for you to go ahead in your own way." I said to him, "You know what that means; I will turn the whole party out if I go ahead." He said, "I don't care what you do; only give us notice when you are ready." "No," said I, "I will give them the full year, as I said I would. The adjustment of differences between the Whelen and Bartol committees removes all danger of immediate foreclosure. I am going to Europe for a few months and I will give them the full year." That full year, gentlemen, will expire on the second Monday of January next, and at that time solemn judgment of ouster will be rendered against them.

At the last annual meeting I did not complain; I abstained from doing anything that could hinder or obstruct those who were empowered to deal with the question of reconstruction. I determined to give them an ample opportunity to save the Company, and to aid them by any means in my power. I had some strange experiences afterwards with them. One day I remember there was a meeting of the new managers at the office of Barker Brothers & Co., and I was asked to meet them, as there was a subject-matter coming up for discussion

which nobody but myself knew anything about, and whenever that character of business was to be transacted it was thought prudent to have me present. The meeting of managers took place in an inner room, and when the board convened I was requested to leave the room until they were ready for me. I went out and sat near Barker Brothers' clerks, messengers, and telegraph boys, and when they had discussed matters which they thought they knew something about and did not desire me to hear, they called me in, and when I had given them a moderate amount of instruction in railway management I was told to withdraw. All of this was very amusing, and thus I amused myself with them for three or four months, until I could stand it no longer. I was trying during all this time to prevent sales of collaterals for the floating debt, and that was the only reason I remained at the general office, and up to the time I left there never was a sale of collaterals threatened, of which I had knowledge, that I did not stop except one, and in that case the creditor, whom I knew very well, and who had been most unjustly treated, returned the collaterals which he had bought, and took a new note for the debt. When I found, however, that people were being directed to sell their securities by the Receivers themselves and by members of the board of directors, I left the office. My power for good was gone. It is true that they always professed a desire to have my services, but they would reserve the right to direct that those services should be rendered according to their views of railway management. It was very much as if their house was on fire and they had said to me, "Mr. Gowen, you are somewhat responsible for this conflagration, and you should help to put it out." Instantly I would reply, "Let us put it out first and talk about the origin of the fire afterwards. I know all about the building; I know where the combustible material is stored; I know where the dangerous air-passages are. Give me the hose, and I will put it out." "Oh, that is not according to conservative business principles," they would say. "We are the managers. We must do the work, and you must teach us how." "Alas!" I would exclaim, "by the time you learn how, the house will be burned down."

Well, then they would have a meeting about it, refer the



question to committees and take opinion of counsel, and the result would be a resolution like this :—

*Resolved* :—That, pending the present conflagration, the nozzle of the hose be intrusted to the custody of Mr. Gowen, *provided* the managers and Receivers keep control over the supply of water.

I do not know who owns the patent for that class of resolution, but I think the form was adopted so that if the fire was not put out they could say, “ You saw Mr. Gowen; he took the hose; he was responsible for everything; he rushed in here and took everything out of our hands; ” but if the fire was put out they would be able to bring proof that Mr. Gowen could not have accomplished anything but for the liberal manner in which they supplied him with water.

A very curious thing occurred about this time in connection with the legal business of the Company. My brother, who had been general counsel of the Company for over twenty years, long before I had anything to do with it, as many of you know, was taken suddenly ill last winter. During his illness the following resolution was passed :—

PHILADELPHIA, Wednesday, February 11th, 1885.

On motion of Mr. Wanamaker, seconded by Mr. Comly, it was

*Resolved* : That during the illness of James E. Gowen, Esq., Franklin B. Gowen, Esq., be instructed, under the resolution of October 28th, 1884, to represent the Philadelphia and Reading Railroad Company as counsel before the United States Circuit Court, and in all questions growing out of the Receivership.

Five days after my brother died. Immediately the other lawyers took charge of legal business for the Company, and when some very important litigation involving foreclosure and the continuance of the relations with the Central Railroad Company of New Jersey was pending, I wrote the following letter :—

NO. 227 SOUTH FOURTH STREET,  
PHILADELPHIA, March 24th, 1885.

*To the President and Board of Managers of The Philadelphia and Reading Railroad Company.*

GENTLEMEN :—On the 11th day of February last I was authorized by a resolution of your Board to represent the Company before the United States Circuit Court and in all questions growing out of the Receivership. This authority, however, was by its terms to be exercised

only during the illness of my brother, the late James E. Gowen, who died within five days thereafter. If it be the desire of the Company that I should continue to represent it, I shall be very glad to do so under the following conditions, viz. :—

*First.*—That I shall have control as counsel for the Company of the litigation referred to in the original resolution, and in any other suit or suits or other proceedings which may be instituted by any bondholder or trustee or trustees of any mortgage against the Company looking to foreclosure.

*Second.*—That I may advocate on behalf of the Company the payment by the Receivers to the Central Railroad Company of New Jersey on account of rent of all sums required by the latter to meet its fixed charges, and any further sum or sums which may be either earned upon the leased line or agreed to be paid by your Company in pursuance of any amicable modification of the present lease made between your Board of Managers and the Central Railroad Company of New Jersey.

*Third.*—That I am not to receive any pecuniary compensation whatever for my services.

Very respectfully,

FRANKLIN B. GOWEN.

This was on the 24th of March, and the suits were coming up within a few days. It happened very oddly that I was promptly subpœnaed as a witness. Of course, I could not act as counsel and be a witness in the same suit. That ended me as counsel. Nine days afterward I received this communication :—

PHILADELPHIA, April 2d, 1885.

*Franklin B. Gowen, Esq., Attorney-at-Law,  
Room 43, Forrest Building, Philada.*

DEAR SIR :—At a meeting of the Board of Managers of this Company held at their office this day the following resolution was adopted :—

“On motion of Mr. Wharton, duly seconded by Mr. Comly, it was resolved, That Franklin B. Gowen, Esq., be requested to act for this Company as Counsel in conjunction with the General Solicitor, until the Board is able to further mature its plans for permanent reorganization.”

Very respectfully,

ALBERT FOSTER,

*Secretary.*

Well, gentlemen, if I was to be called in as a doctor to attend the sick man, I did not intend to have undertakers for my colleagues, and so ended my relations with the Reading Railroad Company as counsel. Since then I have had nothing to do for them, until to-night, and I think I am doing



them more service to-night than anybody else connected with the Company has done for them since I left the office of President of the corporation. Remember that I have been charged with managing the Company all the time. But I tell you that from the time I left the Presidency until I heard they were going into the hands of the Receivers, I never once met the board of managers in session, nor was I ever asked to meet them. And since the date of the Receivership, last June a year ago, though the Receivers held sessions two or three times every week and for months in the room adjoining the one I occupied, never once in all that time was I asked to meet the Receivers in consultation about anything connected with the Company, and the only two times on which I appeared before them were—first, in consequence of a resolution of the board of managers to try to straighten out the Central Railroad of New Jersey matters; and, second, to read and explain a contract I had drawn for the business of the Baltimore and Ohio Railroad Company. Those were the only two occasions.

Often, as I sat in my adjoining room while these meetings were going on, I have wondered what they were doing, under what leadership they were acting, and what the character of the discussion could possibly be. There were two Receivers and three counsel. Mr. Kaercher represented Mr. Keim. Mr. Dickson was counsel for Mr. Caldwell; Mr. Ashhurst was counsel for the vacancy, and I think Mr. Ashhurst's client rendered more service to the Company than any of the others. I am quite sure that Mr. Ashhurst himself, as counsel, did far more good than any of the others, for I want to do him the credit of saying very sincerely that I believe he never moved his hand except to try to do good for the Company. But who controlled those meetings? Who dominated those solemn conclaves? Who can tell? I do not know. It seems to me that Mr. Kaercher controlled Mr. Keim; that Mr. Caldwell controlled Mr. Kaercher; that Mr. Dickson controlled Mr. Caldwell; that Mr. Bullitt controlled Mr. Dickson; that Messrs. Drexel & Co. controlled Mr. Bullitt; that the Pennsylvania Railroad controlled Messrs. Drexel & Co.; and I am sorely afraid that sometimes, in its dealings with the Reading

Railroad Company, the Pennsylvania Railroad Company, to use the old phraseology of criminal pleading, with which I used to be very familiar about twenty years ago, was moved and instigated by the devil, and I am quite certain it did not have the fear of God before its eyes.

You may be sure that everything was conducted with great legal ability. For instance, upon the question whether it was prudent to construct the extravagant cars Mr. Gowen had ordered for the coal trade, I have supposed that a discussion arose as to what kind of an intermediate estate was necessary to support a contingent remainder or a vested remainder—and when such legal question was once settled by counsel the Receivers' order was given to stop the construction of cars. Again, upon the question of whether the coal trade should be stopped to please one of the New York Companies. I have no doubt that a learned discussion arose among counsel as to whether the word "children" in a devise, under the rule in *Shelly's* case, was a word of limitation, and when that intricate problem was understood by the Receivers, orders were at once given to stop the coal trade. Sometime ago one of the steamers of the Company was sunk. Of course the next hour by telegraph the wrecking company should have been ordered to raise the vessel, because what the Company wanted the steamer for, was not so much for its earnings, *per se*, but for the additional amount of coal it would enable the Railroad Company to carry. The matter was delayed for one month; they discussed it; they referred it to the managers, and the board referred it to the Receivers; the Receivers referred it to the counsel, and the counsel consulted together as to whether the court would approve of such a thing; but after long delay it was finally determined that the vessel should be saved, and notice was given to the wrecking company, who said, "Why, gentlemen, it is now too late." I am told that a very interesting question of maritime law discussed by counsel on that occasion caused a great deal of the delay, and that was whether during a storm upon the canal the captain of a canal boat had a right to order in a reef of the stovepipe without the consent of the cook. That interesting question of admiralty law being finally resolved to the satisfaction of counsel, the



steamer was directed to be raised, just twenty-eight days after it was too late to save it.

Again, you have heard very much about Mr. Bartol and his committee of general mortgage bondholders. Mr. Bartol is a gentleman who, I am told, has complained very bitterly that Mr. Gowen was controlling the affairs of the Reading Railroad Company. Indeed, one day the newspapers reported him as saying that if people wanted to save anything at all out of the Reading Railroad they had better act promptly, as Mr. Gowen had as much to do with the Company as ever. I should like to read a short letter from Mr. Bartol. I ought to have known Mr. Bartol, but I cannot recall that, until the receipt of this letter, I ever knew or heard of him although I knew there was a sugar firm of that name, but I had no personal knowledge of any of the partners. Here is the letter :—

139 SOUTH FRONT STREET,  
PHILADELPHIA, December 15th, 1884.

*Mr. Franklin B. Gowen,*

DEAR SIR :—As the representative and owner of nearly \$100,000 of Reading general mortgage bonds, I have seen several other large holders with a view to calling a meeting of the holders of such securities for the purpose of securing a concert of action to protect our interests, particularly in reference to the continued default in the payment to the sinking fund. It has been suggested, and with such suggestion I fully concur, that as we do not desire in any way to hamper you in your proposed plan to relieve the Company, provided our interests are fully protected, that it might be wise to see you before we take any definite action ; and the object of this is to ask, with that object in view, if you will appoint a meeting with me to talk over the matter.

Yours truly,  
H. W. BARTOL.

To this letter I replied as follows :—

No. 227 SOUTH FOURTH STREET,  
PHILADELPHIA, December 17th, 1884.

*H. W. Bartol, Esq., 139 South Front Street,*

MY DEAR SIR :—I have to acknowledge receipt of your favor of 15th inst. I do not in any manner represent the Philadelphia and Reading Railroad Company, except to the extent of having undertaken to prepare a plan for such financial reorganization as to put an end to the present uncertain condition of their affairs. It seems to me, therefore,

proper that your communication upon the subject of the sinking fund of the general mortgage bonds should be made directly either to the Company or to the Receivers of the Company. If you should be in the neighborhood of the office at any time, it would give me pleasure to listen to anything you may have to say, provided it is with the understanding that you would be talking to one who has no official right to deal with the subject.

Very sincerely yours,

F. B. GOWEN.

Mr. Bartol called to see me and I had a very pleasant conversation with him, and subsequently when his committee met the managers I was present. Then he rushes out and tells the newspapers that he is surprised that Mr. Gowen has just as much to do with the concern as ever, though it was he who by letter requested Mr. Gowen to meet him and consult with him. So you see Mr. Gowen has been made the scapegoat for the sins of a great many other people, and he does not propose any longer to undergo this vicarious punishment for the iniquities of others.

Before I went to Europe last May the Whelen and Bartol committees had perfected their joint plan of reorganization, and when I had seen it I wrote as follows about it to one of the managers of the Company:—

PHILADELPHIA, May 4th, 1885.

DEAR SIR:—I learn from the newspapers that the managers are to consider and take action upon the recommendation of the Whelen and Bartol committees to-day, and I, therefore, write to repeat what I said to you verbally the other day, viz:—

*First.*—The plan of raising money is defective, because all the good securities go to the first loan of ten millions of dollars, leaving nothing sufficient to raise the second portion, which is more important to raise than the first. The shareholders and junior bondholders should not be asked to subscribe to a loan which is not well secured, when one that can be well secured can be offered them. Every one would rather pay \$1000 for a good loan than \$500 for a bad one, and it will be much easier to raise \$20,000,000 from the shareholders and bondholders upon all the collaterals, than to secure \$10,000,000 upon such as are left after putting aside all the best to secure a prior loan of \$10,000,000. Again, the attempt to obtain subscriptions to an unsecured loan by assessments, without the power to enforce assessments, is objectionable in this, that all the injury resulting from assessing shares will be inflicted without the benefit that would result from an assessment which could be legally enforced.



Hence, where there is no power to make assessments, the attempt\*should not be made, and the loans required, instead of being *enforced*, should be put into such shape and accompanied with such conditions as to tempt voluntary contributions by reason of the benefits which those who subscribe would have over those who do not.

I consider the above objection as very serious. There are others not so serious, but deserving some consideration, viz.:—

1. The assessment of shares and bonds to pay trustees should be omitted. The Company has ample power to pay the trustees, and whatever they are paid had better come out of the treasury of the Company, in which event all shareholders contribute; whereas an attempt to assess, without power to enforce payment, throws all the charges upon a few willing contributors.

2. The cutting off three consecutive coupons of the general mortgage bonds, instead of three alternate ones, will be considered objectionable by many. If a bondholder gets three per cent. in cash each year, he will be generous in dealing with the other three per cent.; but, if he gets nothing to live on for eighteen months, he will at least *get* angry.

3. The provision which prohibits pledging the stock of the Coal and Iron Company in future may lead to the very injury it was designed to prevent. If the Company ever gets into trouble again, it will be compelled to hold this stock subject to attachment and sale by hostile creditors, instead of putting it out of danger by pledging it with a friendly one.

4. The Reorganization Trustees should not have the power to decide against the reorganization plan "*on or before*" May 1st; if so, they might decide to-morrow.

5. The managers should not put themselves on record as agreeing to unite with bondholders to foreclose the property they are elected to protect. The managers are the direct representatives of the shareholders to whom their allegiance is due, and before uniting with the creditors of their principals to foreclose the property intrusted to their care, they should, at least, call those principals together to consider and take action upon the situation.

Very Truly Yours,

FRANKLIN B. GOWEN.

I now come, gentlemen, to my absence in Europe during the last few months, and I want to take the liberty of making an explanation about my silence, when the troubles of the South Pennsylvania Railroad Company were impending. I was solicited to return home, and I did not—Why? Because I knew perfectly well that of the two companies the Reading Railroad Company was the more important to save, because if the Reading Railroad was not saved, what was the use of building the South Pennsylvania Railroad? Everybody will admit that. Everybody will admit that it would have been

folly to go on and build the South Pennsylvania Railroad if, by the time it was constructed, the Pennsylvania Railroad Company owned the Reading Railroad. I knew, therefore, perfectly well that if I came home and by any influence or control of mine, or by litigation or other effort, I had succeeded in preventing the transfer of the majority interest in the South Pennsylvania Railroad Company to the Pennsylvania Railroad Company, that the Pennsylvania Railroad Company's friends would own enough Reading Railroad stock before the books were closed in October for the election, to prevent my success in January next, and I bided my time and held my peace although I was sorely tempted to cry out. When I did come back to America the voting list of the Reading Railroad Company was made up. Fortunately the control of the shares to-day belongs to no one man or to no one power. It belongs to the great body of the shareholders, and I represent them, and when the Reading Railroad Company is saved, the South Pennsylvania Railroad can be constructed; and, if anything interferes with its construction then much more quickly than it could have been constructed, a line between Pittsburg and Harrisburg via the Baltimore and Ohio Railroad Company's Connellsville route will be opened, and the Reading Railroad Company will at last have communication with Pittsburg as it should have, the Pennsylvania Railroad Company, and all the powers of darkness to the contrary notwithstanding.

I now call your attention to the various plans of reorganization which, after so many dreary months of incubation, have been hatched by the several committees. There are three of them :—

First. We will take the Reorganization Trustees' plan. I need not go into its details. There are two things which kill it, as they say, from the word "go." One is the scheme to obtain \$7,000,000 from the shareholders as a present without giving anything for it. The other is, that instead of reduced fixed charges on issues in respect of the general mortgage, it is proposed to make the fixed and income charges upon such issues exactly the same as now. That kills it. That is no way to reorganize a company in a cheap money market. The way to reorganize the company is to issue a new loan at



four or four and a half per cent. to take the place of the general mortgage, and then give to the general mortgage creditors the option of taking their money in full or of taking the new bond. But to turn the general mortgage into two classes of securities that require to be paid annually, before any junior creditor is reached at all, just the same amount of money that is paid now, is digging the grave of the Reading Railroad Company. It may be a business reorganization, as such is understood by gentlemen who do not like Mr. Gowen's visionary plans; but the real business way of reorganizing is to take advantage of the low rates of money by paying off a six per cent. obligation with the proceeds of a four or a four and a half per cent. issue.

Mr. John A. Wright also has a plan. The general mortgage creditors shall be saved to a certain amount, and then, what? Everybody else, no matter who, shall take shares, and Mr. Wright thinks all will take shares for their present debts, the principal of many of which is well secured by mortgages. Why? Because he knows he can earn a half per cent. per annum upon the new shares. Mr. Wright's plan will not do. Mr. Wright's one-half per cent. per annum of income will not tempt people to surrender a good mortgage.

The third plan is Mr. Wharton's, which came out to-day. Mr. Wharton's plan will not do at all. Why? Because it is impracticable without the consent of the general mortgage bondholders, and the general mortgage bondholders will never consent that the property shall be sold and their mortgage divested, so that the new mortgage for \$10,000,000 shall be put ahead of them. The general mortgage creditors will not submit to that. When I heard of that plan this evening—and I heard of it very late, as I was coming here—and found that Mr. Joseph Wharton was standing sponsor to Mr. Wharton Barker's plan, and remembering the light and airy manner in which Mr. Wharton Barker started out a year ago to save everybody in the Reading Railroad Company, provided Mr. Gowen was excluded from any control, I was reminded of a young gentleman who resembled Mr. Wharton Barker very much, only instead of being a financier he was educated as a physician. When he came home

from the university thinking very much as Mr. Barker thinks that what he did not know was not worth knowing—he determined, as he said, not to resort to a general practice, but to set up as a specialist, because he found that specialists always made money. His father said, “a specialist must have great experience.” “Ah, yes,” he said, “but I have genius, and I shall secure practice. I shall make a specialty of the diseases of women and children, because parents and husbands pay well, and I shall have a very lucrative practice.” His first case was that of a mother and child taken suddenly ill, and he entered into the case with high hopes of making a great reputation. At the end of a long night of anxious waiting upon the sick-bed he returned home, and his father said to him, “Well, John, how are you getting along with the great case?” “Oh, splendidly,” replied he, “the mother and child are both dead, but I think I can save the old man.” Mr. Wharton Barker started out to save the shareholders. Above the shareholders come the debenture bonds, and above the debenture bonds come the second series fives, and above the second series fives come the first series fives, and above them, in the order of priority, come the convertible adjustment scrip and the income mortgage bonds, and next above them come the general mortgage bonds; and after the lapse of one year, Mr. Wharton Barker comes up smiling and says he is getting along splendidly. “The shareholders are absolutely gone; the debenture bonds are worthless; the second series fives nothing can be done for; the first series fives will have to go by the board the convertible adjustment scrip nobody need bother about; the income mortgage bonds are not worth taking into consideration; the general mortgage bonds will have to be foreclosed, but I can save the improvement mortgage.”

Gentlemen, they cannot carry out such a plan. Why? Because the general mortgage bondholders will never consent that the principal of their debt, which at all events is well secured by a mortgage upon valuable property, shall be jeopardized by having \$10,000,000 of new mortgage put ahead of it. Mr. Wharton Barker says there are \$8,000,000 of Receivers' certificates. There are only \$3,000,000 of Receivers' certificates, and three or four millions due every month by the Re-



ceivers for wages, rents, and current expenses. Every month there is about that amount of money coming in, but all the Receivers' obligations can be paid without asking the general mortgage bondholders to permit a new lien of \$10,000,000 to take precedence of their claim. If there is any one thing a mortgage creditor dislikes, it is to give his consent to another mortgage being placed ahead of his own, for the purpose of strengthening his security. Hence they are all reckoning without their host when they hope to secure the assistance of the general mortgage creditors, to enable Mr. Wharton Barker to earn his commissions on the new mortgage for ten millions, which it is proposed shall take precedence of the general mortgage debt. And here, if you will permit it, I will tell you another story. I do not like to tell stories in a business meeting, but this one is very *à propos*. A friend of mine, who is very fond of horses, asked me one day if I knew how his attention was first directed to the great value and importance of horses. I said, "No." "Well," he replied, "when I was a boy I went one day to the circus and was very much pleased with all I saw, but thought that I, without experience, could perform just as well as the trained actors"—very much like Mr. Wharton Barker—"and I determined to have a circus of my own. So, on a vacant lot near my father's house, I had the ring staked out, and we got a man to haul saw-dust for us, and we got a lot of sheets and made a tent, and as I was to be the clown, I had my clown's dress made and it took nearly a half-year's spending money; and then I had a ring-master, with a swallow-tailed coat and a high hat, and I had acrobats and tumblers, and when everything was ready I invited my friends to come to the circus, and we all assembled one afternoon expecting a jolly time. Among the boys who came was one of those visionary and sanguine fellows who are always looking ahead, and who cried out, 'Where are your horses? How can you have a circus without horses?' Oh," said I, "I forgot all about them." And so Mr. Wharton Barker and Mr. Joseph Wharton, in making their arrangement to borrow \$10,000,000 ahead of the general mortgage, have forgotten to bring the general mortgage creditors with them, and until they get them their circus will be a lamentable failure.

And now, gentlemen, let me tell you something about the manner in which this property should be dealt with. Let me call your attention to certain fixed business principles. The first is this : When a company gets into trouble, it is the duty of the shareholders, through their managers, to provide the means of extricating it from trouble, and the penalty that they pay for not doing so is that they lose the control over their property. The shareholders of the Reading Railroad Company have had no opportunity of doing anything yet. Why? Because the bondholders' committee named a ticket for them and undertook to save the property, and the shareholders who last year sent their proxies to Mr. Gowen, were requested to vote for that ticket upon the implied covenant by the bondholders that they would manage their property better than the shareholders could themselves.

Now, therefore, the first thing to do is to place the management of the property back into the hands of the shareholders, then to say to them, "You shall have three months' or four months' or six months' time to save your property; select your board of managers; raise the money to pay your debts, we will aid you by concessions in the fixed charges. If you fail, it will then be time enough for us to take the matter in our own hands." But before the bondholders attempt to foreclose they should at least give the shareholders the opportunity of raising money to save their own property from destruction.

There is another well-known business method to which I would like to advert, although I am afraid it will be considered very heterodox by the conservative financiers who differ with me. It is a very simple plan and a very old-fashioned plan. It is a plan that has never been known to fail to extricate any company that has got into trouble, and though it has often been successfully applied, and is generally the first plan thought of, not one of these gentlemen has ever thought of it, though it is by far the simplest plan of all. Every business man should have thought of it, but the trouble is they have been conducting the business of the Receivership under the cloud of so much legal advice that every plan suggested was instantly condemned, unless it was endorsed in the Institutes of Justinian, or had received the awful sanction of Little-



ton or of Coke. This simple and efficacious plan is to earn enough money to pay the fixed charges. Nobody has ever thought of that! Nobody, from the commencement of these troubles, has ever suggested that! It has been forgotten altogether.

Just to show you how Philadelphia, this good old-fashioned Philadelphia, is joined to its idols, let me mention that the other day I said to a friend of mine, for whom I have a very great respect, "My dear fellow, this matter of reorganization is not difficult; the Company should earn at least \$15,000,000 a year." Said he, "Don't say that at your meeting, for the world! It will kill you, they will not believe it." Why, gentleman, three years ago the Company—that is, the Reading and Central New Jersey united—earned \$17,772,000 net; four years ago they earned \$15,637,000 net; five years ago they earned \$14,806,000 net. The average earnings for those three years, after paying all expenses and taxes and legal fees, and everything else except interest, were \$16,072,000 per annum. Why can it not be done again? What the property earned for three years in succession, when the traffic was not as great as it is now, can certainly be earned again. I can point out and lay my finger upon the causes that account for the great reduction in earnings since I left the Company. In 1883 the earnings were \$17,772,000. I left the Company. In 1884 what did they earn? \$13,396,000, a decrease in net earnings of about twenty-five per cent. Why was it? How can it be accounted for? What other company ever heard of, except during a strike or in a great panic, ever suffered such a decrease of net earnings? Remember that in that very year the gross receipts from merchandise and passenger traffic fell off only four per cent. In a year of great depression every company will lose something, and a loss of four per cent. of gross receipts derived from merchandise and passenger traffic, equal say to one and a half per cent. of net earnings from those sources, was not a great loss. But the Company lost twenty-five per cent. of its net profits, and ninety-five per cent. of that loss was in the coal traffic. If that loss was due to the general condition of business or to the dullness of the coal trade those who man-

aged the Reading Railroad were not to blame. But let us examine, in order to discover whether it was due to either of these causes.

Let us pick out the two companies whose traffic is more nearly like that of the Reading than any others—the Lehigh Valley Railroad Company, and the Delaware, Lackawanna and Western Railroad Company. Each has a large coal trade, and each has a general merchandise and passenger traffic. The Lehigh Valley Railroad Company lost of net profits that year not quite four per cent. The Delaware, Lackawanna and Western Railroad Company lost less than four per cent. These are two companies whose traffic more nearly resembles that of the Reading Railroad than any others, and in 1884 each lost but four per cent. of net earnings as compared with 1883, and the Reading Railroad Company lost twenty-five per cent. of net profits. Why? Because it turned its business over to its rivals by stopping mining for three weeks when there was no necessity for doing so, which alone involved a loss of \$2,000,000, as they earned in the three months in which they stopped those three weeks, about \$2,000,000 less than they earned in the same three months of the year before, when they worked full time. And the remainder of the loss was due to the fact that by refusing to construct the cars I had ordered, they did not have cars enough to secure their fair proportion of the coal tonnage in competition with their rivals when there was no suspension of mining. The present year they will only earn about \$12,000,000, as against over \$17,000,000 in 1883, a loss of over \$5,000,000.

Let me show you how their business is going on this year. Take the city of Philadelphia. In 1883 the Reading Railroad did  $70\frac{35}{100}$  per cent. of the coal trade of Philadelphia; all the other companies put together did  $29\frac{65}{100}$  per cent. What was it last year? Last year the Reading did sixty-seven and the others did thirty-two per cent. This year they have done about fifty-seven and the others about forty-two per cent. The whole loss of business and of profits by the Reading Railroad Company in the last two years is due to the fact that they have given the coal trade away to their competitors, and have lowered prices so much that they have made no



money. They are getting from forty to fifty cents per ton less for coal and coal transportation than they did under Mr. Gowen's sanguine and visionary management, and that accounts for the whole difference in earnings. What is the use of investigating small matters? Why have so many estimable and economical gentlemen been devoting their valuable time for so many months to repairing the leaks in the spigot when the bung-hole has been open all the time? What is the use of puzzling one's brains about this or that trifle? What is the use of surmising that Mr. Gowen was extravagant in the purchase of coal lands, or complaining that he did this or did not do that? We have here a fixed fact about which there is no dispute. They are getting nearly fifty cents less for coal and coal transportation than Mr. Gowen used to get, and yet the demand for coal is so great that they cannot fill their orders. They move over twelve million tons, and the bung-hole leak accounts for the whole missing \$5,000,000. Mr. Joseph Wharton, Mr. Wharton Barker, the Reorganization Trustees, Mr. John A. Wright, Mr. Bartol, and all the Reconstructivists, I think, will admit that if the Reading Railroad Company could make \$17,000,000 a year there would be no trouble about reorganization, and perhaps little necessity for it except to get rid of the Receivers. What has been done, can be done again. Why have the Receivers not done it? Simply because they do not do what they might have done—get a fair price for their coal product. Perhaps they are worried about the newspapers. I know that one newspaper in Philadelphia opened its batteries upon the Company on account of the high price of coal, and perhaps they thought that good legal form required them to consult the delicate sensibilities of the newspaper; but this thing I can say to them is an axiom of railroad management—that the managers of a railroad company who secure the approval of their shareholders can bear, with an almost sublime equanimity, the animadversions of the newspapers, while those who are turned out of office by the votes of the shareholders will derive but cold comfort from the applause of the newspapers. I do think it is high time that somebody got into the management of the Reading Railroad Company that is not afraid of the newspapers; somebody

like myself who has had so much abuse from them that he would feel as if his dearest friends had deserted him if the newspapers did not continue to shower upon him the same lavish outpouring of criticism which he has had to undergo for the last three or four years.

Another matter, gentlemen, of great importance in reconstruction is this: The Reading Railroad cannot be saved as a local coal road; the Reading Railroad cannot be saved if you cut off the Central Railroad of New Jersey, if you cut off the Beech Creek road, if you cut off the South Pennsylvania road, and if you cut off the Baltimore and Ohio road. If you bring the Reading Railroad Company down to the level of a local coal road, so that it shall not be able to compete with the Pennsylvania Railroad Company, you will enlist no capital to help you out of your troubles; and without the aid of the capital which connections with and affiliations to other interests will command for you, you will never get out of your trouble at all. Restore the Reading Railroad Company to what it was when I left it; let it have the Central Railroad of New Jersey to connect it with New York; let it have the South Pennsylvania line to connect it with Pittsburg and the great West; let it have the Baltimore and Ohio connection with Baltimore, Washington, and the South; let it have the Beech Creek, Clearfield and South Western Pennsylvania Railroad so that it can reach the coal fields of Central Pennsylvania; and then you have some foundation to build upon—then you have something upon which you can get money. Why, gentlemen, I am told there is \$10,000,000 waiting in the county of Allegheny and the city of Pittsburg to construct the road to connect Pittsburg with the Reading Railroad the moment it is demonstrated that the Reading Railroad Company is safe from the clutches of the Pennsylvania Railroad Company, and can be relied upon to open railway communication with New York as well as Philadelphia.

A few words about the Central Railroad Company of New Jersey. The Reorganization Trustees say that the lease of that line involves a loss to it, the Reading Railroad Company, of a million and a half dollars a year. But I say that this is not the fault of the leased line, nor is it due to anything else than the



systematically bad management of the Receivers about which I have complained. The rental was to be six per cent. upon the capital stock, or about \$1,100,000 a year over fixed charges. In 1881 the leased line earned \$602,000 over its fixed charges, which was over three per cent. on its capital stock. It earned in 1882 \$597,000 over its fixed charges, which was over three per cent. upon its capital. It earned in 1883 \$854,000 over its fixed charges, which was not quite five per cent. upon its capital stock. When the lease was made in 1883 it was well understood that at least \$400,000 in expenses could be saved yearly by the lessee. In 1884 the earnings had fallen down to \$265,000 beneath its fixed charges, a loss of earnings of over \$1,100,000 in one year, and this year they will be \$275,000 beneath the fixed charges. Why this great falling off? Simply because this year they are not getting within forty or fifty cents a ton as much on coal traffic as they could get, and simply because last year they stopped the coal traffic of the leased line for three weeks in the very cream of the season.

Another proposition I should like to lay down is this. You will never get the Philadelphia and Reading Railroad Company out of trouble if you rely upon the local money market of the city of Philadelphia. They have excluded Mr. Gowen. Why? Because they wanted the confidence of the conservative capitalists of Philadelphia, who disliked Mr. Gowen. The Company wants \$20,000,000. The united national bank capital of Philadelphia is about \$17,000,000. After Mr. Gowen is excluded, after he is excommunicated, and beheaded and buried and forgotten by the conservative capitalists who take his place, the aforesaid conservative capitalists in whose favor he was immolated would not give the Reading Railroad Company \$2,000,000. Is not that true? Why then spend any time over them? Has any one of them ever offered any money except at twelve or eighteen per cent. per annum? Has any one of them ever brought forward any plan to get money? No. Then why shut out other markets, and do away with other people who have power and ability to bring money into the concern?

Where was it ever written as a law of finance, that no company could be saved except by the capital of the city in which

its main office was located? I should like some of these good old-fashioned financiers in Philadelphia, who are sometimes, as the newspapers say, so provincial as to

“think the rustic cackle of their bourg,  
The murmur of the world,”

to remember that there are other places than Philadelphia where money can be had in this hemisphere, as well as in the other. And the many gentlemen who have been struggling with and baffled by this subject, in their endeavor to placate the capitalists of Philadelphia, would oblige me very much if they would tell me what combination of capitalists in the city of Philadelphia will give the Reading Railroad Company \$20,000,000 to-morrow, to pay floating debt, Receivers' obligations, and overdue coupons. If they will show them to me, I will gladly vote for them as managers as soon as they have raised the money and applied it to its proper uses. If they cannot show me that—and they have given no signs of it as yet—then let them all step aside and give somebody outside of the city of Philadelphia the chance to do something. Let the lines of this Company reach other cities, and we can get help from other cities; let us have help from New York, let us have aid from Pittsburg, let us have assistance from Baltimore, and let the great future of the enterprise be promising enough to attract the attention of European capitalists as well. You cannot do that with a local coal road, but the moment you show that this is to be a great highway, with one arm in New York and another in Philadelphia, and another in Baltimore, with two western termini, one at Buffalo upon the Lakes, and the other at Pittsburg upon the Ohio river, then you represent a property that will command the respect, if not the admiration, of those who can furnish it with more money in twenty-four hours than all the conservative capitalists of Philadelphia, for whom Mr. Gowen has been sacrificed, could get together in the course of a whole calendar year.

Look at the magnitude of this property and its past earnings as compared with the amount of money required. There are \$275,000,000 of debt and share capital invested in the Reading Railroad Company, the Central Railroad Company of New



Jersey, and all their affiliated companies and leased lines. Upon this investment \$17,770,000 was earned net three years ago, which is nearly six and a half per cent. on every dollar invested, including shares and deferred bonds. To-day it is earning over four per cent. on every dollar of capital invested in it. Will any one tell me that a property which two years ago earned over six per cent. upon every dollar of capital invested in it, and which to-day, under the worst management that any railroad ever had, is still earning over four per cent. upon every dollar of its capital, cannot be taken to some money market where sufficient aid can be had to put it on its feet?

How much do you want to save the Company? You want only about seven per cent. on the capital that is invested in it. It is no more difficult to deal with \$275,000,000 than it is to deal with \$10,000, provided your market is large enough, and provided your security is good enough. If anybody were to tell me that a merchant in Philadelphia, whose capital in his business was \$1,000,000, and whose earnings were \$65,000, only wanted \$70,000 more capital to save him from bankruptcy, I should think that he was not in much danger, and yet that is just the proportion that the Reading Railroad Company wants. Why is it more difficult on a large scale than on a small one? On what principle? You only want the net earnings of one year in money to save you from ruin. If the whole investment of \$275,000,000 was share capital, all that would be required to save the Company would be for the proprietors to go without income for one year, and thereafter they would get five or six per cent. dividends in each year. Although there is very little share capital, and very much debt, yet that debt in selling for so low a price, and so much of it can be paid off, that it is quite feasible to reorganize the Company upon a basis of \$275,000,000, including the new money required, and with a practical certainty of the lowest security getting three or four per cent. dividends in the worst times. The proportion of money required to the capital invested is so small that when you come to divide it amongst the many thousands of individuals who will be asked to contribute to your fund, the amount that each one has to raise will be so little that

the moment you give each something he can borrow upon, or sell, that moment you will secure his subscription, because for every dollar he contributes he will get value, and double the amount of his contribution will be added to the market value of his other securities.

Another thing I have to say. I have spoken too long already, and though I have not nearly finished I shall soon stop, for it is not right to detain you much longer. What I desire to say is, that it is easier to get a large amount of money if the security is good, than it is to get a small amount of money if the security is bad. If I have a house in Philadelphia worth \$40,000, and there is one first mortgage on it of \$10,000, and another second mortgage of \$10,000, and I want to place a third mortgage of \$10,000, I shall have great trouble to do it. But if I pay off the two prior mortgages I may be able to borrow \$30,000 on a first mortgage. That solves the whole problem about the general mortgage bonds. The general mortgage can be paid off; the mortgage just ahead of the improvement mortgage can be drawn by the sinking fund very largely, and consequently the way to deal with the general mortgage is to pay it off, and put a new mortgage at four or four and a half per cent. in its place and in place of all drawn upon the improvement mortgage, and give the general mortgage creditors the option of taking their money in full, or taking the new bond. And remember, when you do that you save more than enough money on the general mortgage interest to pay interest on the whole income mortgage and the convertible adjustment scrip, and if there is any one thing more than another that must be admitted in this problem, it is, that the man who undertakes to save the Reading Railroad Company by fighting with the general mortgage and the income mortgage creditors had better retire before he commences. No man can save this property under the fire of the opposition of these two classes of creditors. They must either be settled with on their own terms as to interest, or they must be paid their principal, and it is only when you pay them their principal in full that they lose their right to investigate or complain about the manner in which you treat those who are below them in the order of priority.



But I have occupied too much of your time, and though I have not finished, it is nearly eleven o'clock, and I must stop. I intended to say a great deal more. I intended to say about myself that I do not desire to take office for any selfish reason other than a wish to save my property. I have many reasons to incite me to action. A sense of duty to the hundreds of people who have invested in this property on my account compels me to action. I could never hold up my head in this community if I stood quietly by and saw this great property sacrificed, without making an effort to save it. An attempt has been made to injure my character, and I dare not be silent. I cannot see this battle lost. I must turn to the rescue, for if the ship does go down it seems to me I should be the last to leave her. I have the further incentive of having nearly all my own money invested in the Company. I shall be fifty years old at my next birth-day. I have worked as hard as any man ever worked, and the result of my work, about \$211,000, is now in jeopardy in the Company. If I represented nobody but myself and had no other incentive to action I should not hesitate one moment as to my course, and I now give notice that I do not intend to see my money lost without making an effort to save it. I enter into this struggle because I know more about the property than all others put together. I ask for the position of President of the Company, because some strong hand is wanted to direct its course. It is governed by fifty people; and I never yet saw a great corporation taken out of trouble by a town meeting. I know I can do some good, and I tell you further that I go into the fight because I am going to win. And after I have won I believe that it will not be long before I shall be able to lay before you the results of my work.

I do not intend to say that my task is not a difficult one—that it is a mere child's play. It is as hard work as ever man undertook. Further I want to tell you that there may be foreclosure even under my management. I cannot shut my eyes to that, but if it does come it will not be foreclosure for the sake of getting money. It will only be because there may be among the junior security holders enough to hold out for six and seven per cent. when four or five is offered them, to

make foreclosure a necessity, and if there are I tell you there will be foreclosure ; but if there is, not a single man will be cut out. Every man after foreclosure will get his proper representation in the property. No one shall be cut out because he cannot pay.

We are all in the same boat, and every man must work. If I am captain and find I can only save all, providing all, whether passengers or crew, are willing to row or bail the boat, and one says, "I will do nothing ; I paid for my passage, and the rest must save me," I will throw him overboard ; and if he endangers the safety of others by clinging to the boat, I will give him a clip on the head with an oar, and only when he ceases to be dangerous will he be saved. I do not, therefore, by any means close my eyes to the fact that my task is a difficult one, and that it may have to be accomplished by foreclosure.

But what I do believe is this : That the holders of the general mortgage, the income mortgage, and the convertible adjustment scrip can either get a good low rate bond, or they can get their money. That should satisfy them. The other creditors can have in the proper order of their priority five per cent. payable out of earnings. That should satisfy them. If they will not be satisfied there must be foreclosure, but if there is foreclosure it will be to save and not to destroy.

It is now eleven o'clock. I cannot detain you any longer than to apologize for having consumed three hours of your time.